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TAGS: [ECON](#) [ENRG](#) [PREL](#) [PGOV](#) [SENV](#) [PM](#)
SUBJECT: LATIN AMERICA-CARIBBEAN BIOFUEL INITIATIVE

REF: A. STATE 164558

[1](#)B. PANAMA 2005
[1](#)C. PANAMA 651

[1](#)1. (U) SUMMARY. Below is post's response to Reftel A. END
SUMMARY.

ENERGY SECTOR - HYDROCARBONS

[1](#)2. (U) Panama's energy sector consists of the hydrocarbons industry and the electricity sector. Panama's hydrocarbons industry was 100% private until July 2006 when the GOP passed legislation authorizing the creation of a state-run hydrocarbons entity. GOP vision for this entity remains divided between utilizing a state-run entity to negotiate and participate in regional energy initiatives and recognition of the inherent conflict between regulating an industry in which they are an active participant. To date, the state-run entity, Empresa de Generacion (EGESA) is in its inception phase with a pending finance request to the GOP of \$300 million. The private sector hydrocarbons industry consists of Chevron-Texaco, Exxon-Mobil, Shell-BP and two national companies Accel and Delta.

[1](#)3. (SBU) At this time, fuel importers are required to onsell wholesale product based on an "import parity price" (IPP). This is a formula determined by the Ministry of Industry and Commerce (MICI) based on international transportation and commodity prices. MICI recalculates the IPP every two weeks. MICI also publishes a "suggested retail price" weekly. Distributors are not legally required to adhere to this price but exceeding this price can be perceived as "price gouging" by the Panamanian consumer. During the 2006 spike in oil prices, MICI leaned heavily on the petroleum companies to minimize the pass-through of along price increases to consumers.

ENERGY SECTOR - ELECTRICITY

[1](#)4. (U) Panama's electricity sector is divided into generation, transmission and distribution companies. This sector was privatized in the late 1990's when the GOP sold 49% of its holdings to the private sector. The GOP remains an active participant in the electricity market through its partial ownership in each of the three areas and because the

Panama Canal Authority (ACP) is also allowed to sell excess hydro electricity generated by the operation of the Canal to the distribution companies. The GOP heavily subsidizes electricity for low income residents.

15. (SBU) About 64% of Panama's electricity is hydro generated. The GOP is actively pursuing additional hydroelectricity capacity to reduce the country's dependency on thermal electricity, as Panama imports 100% of its fossil fuel consumption. Generation capacity has not kept pace with demand. By law, the distribution companies are required to contract for 100% of the electricity demand. In the years following privatization, spot market prices were lower than contract prices and these companies began contracting for only about 70% of the demand with short term contracts. The absence of long term supply contracts discouraged investment in new capacity by the industry. MICI reversed this trend in 2005 and several new hydroelectric plants as well as the conversion of an existing marine diesel plant to coal are underway. However, Panama can be expected to remain dependent on expensive thermal electricity from the spot market to meet demand through 2008 when new (and cheaper) capacity is expected to come on-line. Panama is actively pursuing the completion of the Central American electricity grid under the MesoAmerican Energy Initiative.

HOST COUNTRY FUEL DISTRIBUTION

16. (U) Panama currently uses bunker C and marine diesel for thermoelectricity generation and gasoline and diesel for transportation. Passenger vehicles use motor gasoline (MOGAS) and buses and some passenger vehicles use diesel (Gasoil). According to the GOP, Panama's 2005 hydrocarbon consumption was 14.8 million barrels. The transport sector consumes 7.8 million, industry consumes 5.3 million and residential use consumes .945 million. Within the transport sector, taxis and buses consume 3.6 million gallons of gas and 2.8 million gallons of diesel per year. Further information is available at www.mici.gob.pa/hidrocarburos/consumonacional 2006.html.

17. (U) The GOP is also actively exploring the importation liquid natural gas from Colombia. Media reports state that Panama uses 100 million cubic meters of natural gas a day.

18. (U) At this time, there is no reliable measure of the use or availability of flex fuel cars in Panama. In the last six months, two companies have begun selling kits to run existing vehicles on LP gas. Although there is no legal impediment to the use of ethanol/gasoline blends, none of the current fuel suppliers/distributors offer the product. Further, many automobile manufacturers do not guarantee performance when using alternative blends and it may negate the warranty on a vehicle.

SUGAR INDUSTRY

9.(U) In recent years, the Panamanian sugar industry reported lower production and profits claiming excess world supply and the decreased U.S. Tariff Rate Quota (TRQ). During 2006, the U.S. increased the TRQ and the industry is reporting profits and planning to increase production. Increased profit and high oil prices spurred interest in ethanol by the industry. The industry proposed to the GOP the doubling of the current sugar cultivation area through tax breaks and other protectionist measures against foreign competitors, primarily Brazil. This legislation is under review by the governing committee in the Panamanian legislature. In its current form, it may contain provisions in violation of Panama's WTO obligations.

10. (U) All of Panama's sugar producers burn the fields before harvesting to increase efficiency and improve labor conditions. One foreign company (an alcohol producer)

expressed concern about the environmental damage and stated its intention to try alternative practices, including mechanized harvest. However, as low cost labor is plentiful in Panama, the industry is not incented to invest in expensive mechanization for environmental reasons. Post's Foreign Agricultural Section (FAS) staff could not find an instance of citizen action against sugar cane field burning.

¶11. (U) The total area under sugar cultivation in Panama is 19,200 hectares. Some 12,400 hectares are owned among Panama's four sugar producers and 6,400 hectares are subcontracted from private farmers. Production is concentrated in Panama's central provinces. One hectare of sugar cane can consume up to 60,000 liters of water per day with usage diminishing as the plants mature. The most common fertilizer in use is UREA. Also prevalent is Potassium Molibdate (MOP) and Diamine Phosphate (DAP). The four privately owned and operated refineries produce 143,000 metric tons of sugar each year. The industry employs 3,800 people during the low season and up to 8,500 during the high season. All four mills burn bagasse as an energy source. One of the four mill owners told FAS staff that the sugar cultivation area could be tripled but would require additional land purchases and/or subcontracts to farmers.

INVESTMENT CLIMATE - LAND OWNERSHIP

¶12. (U) Panamanian law allows the private ownership of land by foreigners. However, at this time only 30% of Panama's sovereign territory is properly surveyed and titled. Panama's land management bureau (CATASTRO) is currently receiving Inter-American Development Bank (IADB) funding to complete the land surveying and titling process. Law 2 passed in February of 2006 asserted the GOP's authority over Panama's coastal and island areas as concessionary property (similar to land lease in Hawaii). Development of these areas requires the negotiation of a concession agreement with the GOP.

¶13. (U) Significant portions of Panama are classified as Rights of Possession (ROP) land. ROP property technically belongs to the government but occupants who can demonstrate they reside on the property, derive their primary subsistence and perform regular maintenance on the property for 15 years or more, can be awarded prescriptive rights (legal recognition that the property "belongs" to them.) However, ROP, even with a certificate issued by the Department of Agriculture's Agrarian Reform (MIDA - Reforma Agraria) is susceptible to legal challenge. The majority of Panama's indigenous population lives on ROP property, often within specially designated tribal lands (comarcas).

INVESTMENT CLIMATE - ENERGY

¶14. (U) At this time, Panama has little to no environmental regulation specific to the production or refining of bio-fuels.

¶15. (SBU) Panama is a global transportation and logistics center with highly sophisticated port facilities. The availability of fuel storage tanks, however, is limited. Until recently, all fuel storage was owned or leased by the existing petroleum industry. The GOP is negotiating an agreement with Chevron Texaco to take back several tanks on the Pacific coast near the entrance to the Panama Canal.

¶16. (U) Panama has world class engineering and construction firms. The market for these services as well as the related skilled and construction labor is extremely tight due to Panama's housing and construction boom, upcoming Canal expansion and a proposed \$5 billion petroleum refinery in Puerto Armuelles (Refs B & C).

¶17. (U) In the period after privatization (1999), electricity

generation companies building new power plants could import material and equipment duty free and several did. However, one U.S. company had several million dollars of duty incorrectly assessed. Despite receiving a favorable ruling, they have yet to receive these funds back from the GOP.

18.(U) In October 2006, the GOP proposed a new law which would introduce ethanol to Panama as of March 15, 2008. The law provides the guidelines for the promotion and development of the use and production of ethanol. The law establishes a minimum 5% ethanol blending requirement and allows the transport fleet and power generation sector to use up to 10% ethanol/gasoline blend. The GOP contracted a private consulting firm to determine whether the proposed production of 16 million gallons of ethanol per year is beneficial. Media reports state it is estimated this would require an investment of \$50 million and an additional 16,000 hectares of sugar cultivation. The draft legislation considers the use of maize, banana, soya, manioc and/or sorghum for the production of bio-diesel as well.

19. (U) Panama has an Association of Renewable Energy Producers (APPER). On October 12 and 13, this association reportedly hosted the First Conference of Central American and Caribbean Renewable Energy Investors in Panama's City of Knowledge. Renewable energy experts from the European Union are scheduled to visit Panama November 13 to 30 to assist this group in defining strategies to promote the use of renewable energy in Panama, establish a foundation for Panama to work with the EU in the transfer of technology, and potentially establish the City of Knowledge as a pilot site for the exploration of alternative energies.

20. (U) Panama will host an OAS General Assembly meeting in June 2007. The GOP has proposed the meeting's theme as "Energy for Development". This, together with the UN Commission on Sustainable Development's two year cycle focused on energy issues could offer a useful platform to promote biofuels in the region.

COMMENT

21. (U) The GOP has a clear interest in exploring alternative energy sources and reducing its dependence on foreign oil. The transportation, financial and construction industries in Panama are highly developed and sophisticated. Panama also has available agriculture capacity and inexpensive labor. These factors create a positive environment for investment in alternative energy sources if bio-fuels can be shown to be viable and profitable. The challenge for the GOP is to enable market-driven solutions without undue government intervention. It would be helpful if the OAS and UN CSD processes could show clear examples where private sector driven solutions have achieved real results.

ARREAGA